



INDONESIA: TRADE AND INVESTMENT HIGHLIGHTS OCTOBER 2005

Summary

- Indonesia's non-oil and gas exports increased 21 percent in the third quarter of 2005 compared to the same period in 2004, with machinery/electrical tools, fats and palm oils and mechanical tools the leading export categories.
- According to the Investment Coordinating Board (BKPM), realized foreign direct investments (FDI) reached USD 7.64 billion for the first nine months of 2005, an increase of 160 percent year-on-year (YoY).
- The automotive sector drew USD 315 million in FDI during the first nine months of 2005, but a significant hike in subsidized gasoline and diesel prices on October 1, 2005 appears to be significantly impacting sales.
- President Susilo Bambang Yudhoyono issued a Presidential Decree on October 18 establishing an interagency "National Trade Negotiation Team." Minister of Trade Mari Pangestu admitted on October 13 that rampant Chinese textiles transshipments were passing through Indonesia, and the Ministry of Trade (MOT) issued regulations on October 7 restricting the authority to issue certificates of origin for textiles and shrimp to a limited number of MOT regional offices.
- Hong Kong telecommunications operator Hutchison said it would expand its investments in Indonesia, India and Vietnam.
- The Indonesian Motorcycle Association (AIS) announced on October 17 that motorcycle production declined 7.7 percent in September 2005, compared to the previous month.
- The Ministry of Industry held an automotive component exhibition in Jakarta from October 17 to 18.
- The Ministry of Transportation announced it would reduce terminal handling charges at seaports starting November 1 in an effort to improve Indonesia's export competitiveness, but press reports indicate that not all shipping lines had agreed to the new rates.

Note: This report uses an exchange rate of 1 USD = Rp 9,800

Exports Continue Strong Growth

The Central Bureau of Statistics (BPS) announced on November 1 that Indonesia's exports reached USD 62.3 billion for the first three quarters of 2005, an increase of 21.1 percent year-on-year (YoY). Non-oil and gas exports accounted for USD 48.3 billion of the nine-month total, and showed a YoY increase of 21 percent. Meanwhile, January through September 2005 imports grew to USD 43.7 billion, a 30.6 percent increase YoY.

Overall, Indonesia's trade surplus reached USD 18.6 billion for January through September 2005, a 3.9 percent increase YoY.

Table 1: Indonesia: Trade Performance, Jan-Sep 2005 (in USD billions)

	Jan-Sep 2004	Jan-Sep 2005	Percent Increase 2005/2004
Exports	51.4	62.3	21.2
Oil and Gas	11.5	13.9	20.8
Non-oil and Gas	39.9	48.3	21
Agricultural	1.8	2.2	22.2
Industrial	35.2	40.7	15.6
Mining and Others	2.9	5.5	89.6
Imports	35.5	43.7	30.4
Oil and Gas	8.2	13.3	62.2
Non-oil and Gas	25.3	30.4	20.2
Balance of Trade	17.9	18.6	3.9

Source: Central Bureau of Statistics (BPS)

Industrial exports, which account for 65.2 percent of total exports, expanded 15.5 percent YoY to USD 40.7 billion from January through September. Machinery and electrical tools, fats and palm oils, and mechanical tools were Indonesia's top three non-oil and gas exports for the period comprising 10.9, 6.8 and 6.5 percent of total exports respectively. Japan remains Indonesia's largest export destination, followed by the United States and Singapore.

Table 2: Indonesia: Top 10 Non-oil and Gas Export Categories, Jan-Sep 2005
(in USD billions)

Commodity	Jan-Sep 2004	Jan-Sep 2005	Percent of Total Jan-Sep '05
Machinery/Electrical Tools	4.8	5.3	10.9
Fats and Palm Oils	3.1	3.3	6.8
Mechanical Tools	2.7	3.1	6.5
Coal	1.9	3.1	6.4
Wood and Wood Products	2.4	2.3	4.7
Garment – not knitted	2.1	2.2	4.6
Chemical Organic	1.0	1.1	2.3
Fish and Shrimps	1.0	1.1	2.2
Nickel	0.4	0.8	1.7
Steel and Iron Goods	0.3	0.4	0.9

Source: Central Bureau of Statistics (BPS)

SBY Optimistic Over Export Growth

President Susilo Bambang Yudhoyono on October 5 expressed optimism that Indonesia will achieve its export growth target of 6 to 8 percent for 2005. President Yudhoyono noted that the government would continue to take steps to achieve further growth in exports, such as:

- Simplifying export procedures and other trade regulations;
- Developing more efficient distribution systems through improved transportation infrastructure;
- Improving Indonesia export competitiveness through value-added diversification and bilateral, regional and multilateral cooperation towards greater market access;
- Promoting and maintaining an Indonesian brand image of high product quality, design and packaging; and
- Harmonizing tariffs, expediting tax refunds and implementing trade-financing schemes.

Table 3: Indonesia: Main Non-Oil and Gas Export Destinations, Jan-Sep
(in USD billions, FOB value)

Country of Destination	Jan-Sep 2004	Jan-Sep 2005	Percent of Total 2005
Japan	5.9	7.0	14.6
U.S.A	6.1	6.9	14.4
Singapore	3.7	5.3	11.0
China	2.4	2.8	5.9
Malaysia	2.1	2.4	4.9
South Korea	1.3	1.8	3.7
European Union	6.4	7.3	15.1
Taiwan	1.1	1.3	2.6
Australia	0.8	0.8	1.7
Others	9.9	12.5	25.8
Total	39.9	48.3	100

Source: Central Bureau of Statistics (BPS)

Table 4: Indonesia: Import by Broad Economic Categories, Jan-Sep 2005 (in USD
billions, CIF value)

In US Billions CIF Value	Jan-Sep 2004	Jan-Sep 2005	Percent Increase 2004/2005	Share of Total Jan-Sep 05
Total Import	33.5	43.7	30.6	100.00%
Consumption Goods	2.8	3.3	19.6	7.60%
Raw Materials	26.2	34.3	30.9	78.40%
Capital Goods	4.5	6.1	35.3	14.00%

Source: Central Bureau of Statistics (BPS)

Investment Approvals Rise

According to the BKPM, realized foreign investments reached USD 7.64 billion from January through September 2005, more than double the USD 2.94 billion recorded during the same period in 2004. Meanwhile, realized domestic investments from January to September 2005 reached Rp 11.97 trillion (USD 1.2 billion), a 21 percent increase YoY. The transportation, warehousing, communications, chemicals and pharmaceutical sectors have attracted the greatest investor interest in recent months.

Foreign direct investment (FDI) in Indonesia's automotive and transportation sector continues to grow. October 24 BKPM data shows that FDI in the sector reached USD 315.1 million during the first nine months of 2005 and accounted for 4.1 percent of total realized FDI. According to BKPM, the automotive and transportation sector created some 6,600 jobs from January through September 2005 and ranked 7th largest recipient sector for FDI. One automotive industry representative in Indonesia, however, noted that the 87 percent increase in gasoline prices on October 1 was already dramatically affecting October 2005 auto sales.

Table 5: Indonesia: Foreign Investment Realization In Automotive and Transportation Sector

Year	Projects	Investment Realization (in USD millions)
2001	12	91.7
2002	11	90.0
2003	29	313.5
2004	22	402.6
2005 (1)	25	315.1

Note: (1) January-September.

Source: BKPM

National Trade Negotiation Team

On October 18, President Susilo Bambang Yudhoyono signed Presidential Decree No.28/2005 establishing an interagency "Indonesian National Trade Negotiation Team".

The team will aim to protect Indonesia's specific trade interests and enhance its active role in bilateral, regional and multilateral trade forums and negotiations.

According to the decree, specific objectives include:

- Enhancing Indonesia's active engagement and asserting and advancing its interests in bilateral, regional and multilateral trade forums and negotiations;
- Effectively analyzing the substance, processes, results, and impacts of international trade negotiations in the context of protecting and advancing national interests;
- Formulating Indonesian positions and strategies for trade negotiations with the objective of expanding its global market access and national economic growth; and

- Educating relevant government agencies and the Indonesian public on the progress and results of international trade negotiations through coordination meetings, workshops, seminars and the print, broadcast and electronic media.

Key members of the team include:

- Coordinating Minister for the Economy (Coordinator);
- Minister of Trade (Chair);
- Ministry of Trade Lead International Trade Negotiator (Executive/Vice-Chair);
- Ministry of Trade Director General for International Trade Cooperation (Executive/Vice-Chair); and
- Indonesian WTO Ambassador: (Executive/Vice-Chairman).

Textile Transshipments

Minister of Trade Mari Pangestu on October 13 admitted that transshipments of Chinese textile and garments through Indonesia were increasing. To combat the problem, Pangestu said the MOT would re-activate the electronic visa verification system (ELVIS), increase pre-shipment inspections (PSI), and restrict the issuance of certificates of origin (COOs) to specific trade offices across Indonesia. The MOT will also study methods of transshipment in order to develop more effective enforcement measures.

The MOT on October 7 issued regulations (Decrees No.03/DAGLU/2005 and No.04/DAGLU/2005) governing the issuance of COOs for general and special export products, specifically sensitive items like shrimps and textiles and garments. The regulations limit the issuance of certificates of origin for shrimp exports to the following 14 trade offices:

- North Sumatra;
- South Sumatra;
- Lampung;
- Jakarta;
- West Java;
- East Java;
- Central Java;
- South Sulawesi;
- South Kalimantan;
- East Kalimantan;
- Tarakan City, East Kalimantan;
- South East Sulawesi;
- Cirebon Regency, West Java; and
- Bali.

The regulations further limit the issuance of certificates of origin for textiles and garments to the following 14 trade offices:

- North Sumatra;
- Riau;
- Jakarta;
- West Java;
- Central Java;
- East Java;
- Bali;
- Jogjakarta;
- Surakarta;
- Riau Island;
- Batam Industrial Development Authority;
- Cakung Bonded Zone, Jakarta;
- Tanjung Priok Bonded Zone, Jakarta; and
- Maruunda Bonded Zone, Jakarta;

Hutchison to Invest in Indonesia Telecoms Industry

Hong Kong telecom operator Hutchison Telecommunication International announced on October 10 that it plans to pursue a syndicated loan of USD 1 billion to fund expansion of its telecommunications operations in Indonesia, India and Vietnam. According to press reports, members of the lending syndicate financing the investments may include HSBC Holdings, Standard Chartered, Calyon, ABN Amro and WestLB. Hutchison says it plans to launch mobile services in Indonesia starting in the second quarter of 2006. The company's investment in Indonesia alone is expected to reach USD 773.8 million.

Indonesia's Motorcycle Production Decreases

The Indonesian Motorcycle Industries Association (AISI) announced on October 17 that Indonesia's motorcycle production in September 2005 decreased 7.72 percent to 473,421 units, compared to 513,021 units the previous month. AISI expressed concern that Indonesia's recent fuel price increases had lowered consumer purchasing power and demand. However, overall motorcycle production for the first nine months of 2005 reached 3,926,497 units, a 35.8 percent increase YoY. Japanese brand Honda remains the most popular motorcycle in Indonesia with a market share of 51.5 percent.

Automotive Component Exhibition

The Ministry of Industry, with support from the Indonesian Chamber of Commerce (KADIN), held an automotive component exhibition in Jakarta from October 17 to 18. Coordinating Minister for Economy Aburizal Bakrie opened the event, which aimed to develop links between major automotive producers and Indonesian domestic auto and electronics components industries. As many as 78 domestic and foreign manufactures participated in the exhibition, including Japanese automotive producers Toyota, Honda, Yamaha, and Daihatsu, as well as electronic producer Panasonic.

Table 6: Indonesia: Automotive Component Industry Growth

	2003	2004	2005
Number of companies	230	250	250
Investment (USD billions)	0.7	0.8	0.8
Production (USD billions)	0.9	1.3	0.7
Labor	53,583	54,670	55,980
Exports (USD billions)	0.8	1.0	0.6
Imports (USD billions)	1.8	2.3	1.2

Table 7: Indonesia: Electronic Component Industry Growth

	2003	2004	2005
Number of companies	174	183	188
Investment (USD mn)	0.13	0.16	0.16
Production value (USD mn)			
Labor	140,000	147,000	148,000
Exports (USD billions)	3.5	3.4	1.6
Imports (USD billions)	0.7	0.8	0.4

Source: Ministry of Industry

GOI To Cut Port Fees

Following a meeting with Indonesian port operators, Minister of Transportation Hatta Rajasa announced on October 21 that the GOI would reduce terminal handling charges (THC) at seaports effective November 1, 2005. Under the new fee structure, THC for 20-foot containers will be USD 95, a 58 percent reduction. The move is aimed at boosting the competitiveness of Indonesian exports and reducing Indonesia's high cost economy. Terminal handling charges at other regional ports reportedly range between

USD 90 to USD 107 per 20-foot container, and USD 135 to USD 158 per 40-foot container. Indonesian Textile Association Chairman Benny Soetrisno commented that the reduction in THC costs would help Indonesia's textile and garment industry remain competitive internationally. However, November 10 press reports indicated that some foreign shipping lines had not agreed to the reduced THC and continued to charge fees above the rates announced by Minister Rajasa.

Table 8: Indonesia: Terminal Handling Charge (THC), Effective November 1, 2005 (US Dollar)

Container Type	Container Handling Charge	Surcharge	Total THC
20 feet	70	25	95
40 feet	105	45	150

Source: Ministry of Transportation